



# **The State of New Hampshire Insurance Department**

21 South Fruit Street, Suite 14  
Concord, NH 03301  
(603) 271-2261 Fax (603) 271-1406  
TDD Access: Relay NH 1-800-735-2964

**Alexander K. Feldvebel**  
Acting Commissioner

## **1332 Waiver Design Proposal Individual Market Reinsurance Program January 6, 2020**

### **Background**

The federal program providing for Section 1332 State Relief and Empowerment Waivers allows states to apply for federal funding to support programs that reduce premium tax credit expenditures by the federal government. Federal savings associated with premium reductions resulting from the program are passed through to the State and are known as federal pass through funding. Premium tax credits are income based and calculated against the cost of the 2<sup>nd</sup> lowest cost silver plan with the waiver program versus the cost of the 2<sup>nd</sup> lowest cost silver plan without the waiver program. Savings, in the first instance, are realized via a State share, a source of funds made available by the State. The pass through savings are leveraged by the State share. Other states with 1332 programs have generally leveraged between 2 and 3 federal pass through dollars for every state share dollar.

### **Calculation of the State Share**

The State share will be raised via assessments against insurance companies and stop-loss writers, consistent with RSA 404-G. The assessment rate will be set at 60 basis points (0.6%) of the cost of the prior year (PY) age 40 2<sup>nd</sup> lowest cost on-exchange silver plan. For PY 2021, the State would use PY 2020's rate of \$404.60.<sup>1</sup> The assessment rate for PY 2021 would be \$2.43 per member per month.<sup>2</sup>

The assessment base is approximately 490K lives. Hence, the expectation is that this would generate \$14.3M. If a 2% reserve were retained for assessment base fluctuations or other uncertainties, and an administrative budget of \$500K is assumed, funds available for the State share would be \$13.5M.

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<sup>1</sup> Source: URRTs and Rate Filing Templates submitted by individual market participants and attached to their PY 2020 binders. Previously this number had been reported as \$386.20.

<sup>2</sup> Note the PY 2020 rates were publically available at the onset of the PY 2020 open enrollment period, October 15, 2019.

## **Allocation of Funds to Individual Market Participants**

Funds will be allocated based on traditional reinsurance parameters. There will be a set of initial or expected reinsurance parameters established for pricing purposes. In order to ensure that no more than the amount assessed is obligated, a set of final or actual reinsurance parameters will be established for distributing available funds to individual market participants.

The PY 2021 initial reinsurance parameters will be 70% of claims incurred between \$90K and \$350K. The actual reinsurance parameters for PY 2021 will be established once NHHP knows with certainty the amount of funds available for distribution and once PY 2021 claims are considered closed or final. For PY 2021, the coinsurance percentage will be adjusted up or down from the 70% amount as necessary to distribute all available funds and no more.<sup>3</sup>

Individual market participants have stated a preference for distributing funds based on a reinsurance-like mechanism even with the uncertainty involved with this mechanism. While other mechanisms might have brought greater certainty to allocation payments, they involved either using prior period claims or creating uncertainty in the State share. The former was not attractive to the individual market participants. The latter was not attractive to NHHP payers.

Carriers in the individual market will be required to submit their initial PY filings with two sets of rates. One set of rates will include an assumption about the program payment. The other set of rates will not include any assumption about the program payment. NHID will review these “with and without” rates, along with other pricing assumptions. NHID’s expectation, at least initially, will be that the with and without rate variations will be consistent with the waiver demonstration and assumptions employed by its actuarial consultant, NovaRest.

## **Calculation of Federal Pass Through Savings**

NHID has retained NovaRest Actuarial Consulting to estimate the federal pass through savings the program will generate. Actual federal pass through savings are calculated by the federal government. These calculations are based on their review of the projected rate impact from the waiver application, actual with and without rate filings submitted by individual market participants and the federal government’s projections for APTC enrollment.

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<sup>3</sup> However, in no event with the coinsurance amount exceed 100%. If further parameter adjustments are necessary, the upper threshold amount, \$350K, will be adjusted.

## **Differences between Actual Federal Pass Through Savings and Estimated Federal Pass Through Savings**

If the actual pass through savings differ from the estimates provided the carriers at the time of pricing, these differences will be reflected in the carriers' actual payments. Neither future assessments, nor future payments will be modified to provide for any difference between actual and estimated reinsurance program payments.

## **Timing of Payments and Assessments**

Assessment liabilities will begin accruing January 1, 2021. Payments are collected by the NHHP Association on May 15, August 15, November 15, 2021 and February 15, 2022. The federal pass through savings will be sent to the State on or about April 15, 2021.

There are strategies that would permit some payments to be made to individual market participants as claims emerge and funds are available. The timing of payments does not impact the allocation formula.

## **Program Assessment – Anticipated Premium Savings**

NovaRest estimates that this program design will generate premium savings of approximately 15% in PY 2021. NovaRest further estimates that roughly \$2.20 in federal pass through funds will be generated for each dollar of State share. The NHHP Board, in consultation with NHID, will review these metrics annually, and the NHID will have the ability under the waiver to make adjustments to the program or terminate the program in response to changing market conditions. NHID has not yet settled on standards for when the program might be determined to no longer be effective. For discussion purposes, perhaps when either the anticipated premium savings is less than 5% or when the federal pass through savings generated are anticipated to be less than \$1.00 for every dollar of State share.

## **Care Management**

The waiver application must address carrier incentives for care management and claim adjudication. NHID anticipates that practices in place today will be sufficient.